

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PIKE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Pike County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$701,264 from the beginning of the year, resulting in a cash surplus of \$6,919,198 as of June 30, 2002. Of this \$6,919,198, \$769,894 is reserved for capital lease expenditures, \$1,336,455 is reserved for closing the Fords Branch landfill and \$478,336 is reserved for the payment of long-term bonds.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$4,955,000. Future collections of \$7,122,573 are needed over the next 17 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$9,917,864 as of June 30, 2002. Future principal and interest payments of \$12,098,800 are needed to meet these obligations.

Report Comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court
- The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements
- The Fiscal Court Should Require The Industrial Development And Economic Authority Board To Have Annual Audits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Pike County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Pike County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Pike County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Pike County, Kentucky, as of June 30, 2002, and the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
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Members of the Pike County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2003 on our consideration of Pike County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Pike County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court
- The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements
- The Fiscal Court Should Require The Industrial Development And Economic Authority Board To Have Annual Audits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 1, 2003

PIKE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Karen F. Gibson	County Judge/Executive
Lyle Blackburn	Magistrate
J. Vernon Johnson	Magistrate
James Rodney Keene	Magistrate
Foster Thacker	Magistrate
Lloyd Hilman Dotson	Magistrate
Stirl E. Harris	Magistrate

Other Elected Officials:

Howard Keith Hall	County Attorney
Rodney Scott	Jailer
Lillian P. Elliott	County Clerk
W. David Deskins	Circuit Court Clerk
Charles Keesee	Sheriff
Lonnie Osborne	Property Valuation Administrator
Charles Morris	Coroner

Appointed Personnel:

Johnda Billiter	County Treasurer
Randal Good	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

PIKE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Type			Proprietary Fund Type
	General	Special Revenue	Debt Service	Enterprise
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 3,194,761	\$ 2,841,746	\$ 13,059	\$ 108,155
Investments			465,277	
Accounts Receivable (Note 4)	474,260			
Total Assets	\$ 3,669,021	\$ 2,841,746	\$ 478,336	\$ 108,155
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Capital Lease Payments:				
Courthouse Renovations (Note 7A)	\$ 3,751,822	\$	\$	\$
Courthouse Renovations and Furniture (Note 7B)	453,385			
Road Equipment (Note 7E)	838,500			
Sheriff's Vehicles (Note 7F)	180,000			
Computer Equipment (Note 7G)	7,462			
Solid Waste Vehicles and Equipment (Note 7C)		424,000		
Road Equipment and Vehicles (Note 7D)		486,971		
Phase 4 Landfill (Note 7H)		3,775,724		
Bond Principal Payment (Note 8)			4,476,664	
Total Other Resources	\$ 5,231,169	\$ 4,686,695	\$ 4,476,664	\$ 0
Total Assets and Other Resources	\$ 8,900,190	\$ 7,528,441	\$ 4,955,000	\$ 108,155

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Totals (Memorandum Only) Primary Government		Totals (Memorandum Only) Reporting Entity	
		Component Unit	
\$	6,157,721	\$ 367,321	\$ 6,525,042
	465,277		465,277
	474,260		474,260
\$	7,097,258	\$ 367,321	\$ 7,464,579
\$	3,751,822	\$	\$ 3,751,822
	453,385		453,385
	838,500		838,500
	180,000		180,000
	7,462		7,462
	424,000		424,000
	486,971		486,971
	3,775,724		3,775,724
	4,476,664		4,476,664
\$	14,394,528	\$ 0	\$ 14,394,528
\$	21,491,786	\$ 367,321	\$ 21,859,107

PIKE COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	Governmental Fund Type			Proprietary Fund Type
	General	Special Revenue	Debt Service	Enterprise
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease:				
Capital Lease Payments:				
Courthouse Renovations (Note 7A)	\$ 3,751,822	\$	\$	\$
Courthouse Renovations and Furniture (Note 7B)	453,385			
Road Equipment (Note 7E)	838,500			
Sheriff's Vehicles (Note 7F)	180,000			
Computer Equipment (Note 7G)	7,462			
Solid Waste Vehicles and Equipment (Note 7C)		424,000		
Road Equipment and Vehicles (Note 7D)		486,971		
Phase 4 Landfill (Note 7H)		3,775,724		
1997 Revenue Refunding Bonds Principal (Note 8)			4,955,000	
Retirement Account	63,246			
Total Liabilities	<u>\$ 5,294,415</u>	<u>\$ 4,686,695</u>	<u>\$ 4,955,000</u>	<u>\$ 0</u>
<u>Equity</u>				
Fund Balances:				
Reserved	\$ 776,998	\$ 2,841,746	\$	\$ 108,155
Unreserved	2,828,777			
Total Equity	<u>\$ 3,605,775</u>	<u>\$ 2,841,746</u>	<u>\$ 0</u>	<u>\$ 108,155</u>
Total Liabilities and Equity	<u>\$ 8,900,190</u>	<u>\$ 7,528,441</u>	<u>\$ 4,955,000</u>	<u>\$ 108,155</u>

PIKE COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Totals (Memorandum Only) Primary Government		Totals (Memorandum Only) Reporting Entity	
		Component Unit	
\$	3,751,822	\$	\$ 3,751,822
	453,385		453,385
	838,500		838,500
	180,000		180,000
	7,462		7,462
	424,000		424,000
	486,971		486,971
	3,775,724		3,775,724
	4,955,000		4,955,000
	63,246		63,246
\$	14,936,110	\$ 0	\$ 14,936,110
\$	3,726,899	\$ 367,321	\$ 4,094,220
	2,828,777		2,828,777
\$	6,555,676	\$ 367,321	\$ 6,922,997
\$	21,491,786	\$ 367,321	\$ 21,859,107

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

PIKE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 24,331,527	\$ 7,548,333	\$ 2,639,560	\$ 1,311,431
Other Financing Sources:				
Transfers In	7,426,390	1,282,228	3,074,865	540,000
Receipts - Jail Canteen	272,786			
Capital Lease Proceeds	3,784,850			
Lease-Purchase Proceeds	719,845			
Total Cash Receipts	<u>\$ 36,535,398</u>	<u>\$ 8,830,561</u>	<u>\$ 5,714,425</u>	<u>\$ 1,851,431</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 24,868,179	\$ 9,222,612	\$ 4,912,238	\$ 1,866,813
Other Financing Uses:				
Transfers Out	7,426,390	664,411	569,178	
Expenditures - Jail Canteen	266,289			
Capital Lease Expenditures:				
Equipment	187,807			
Landfill Construction	3,014,956			
Capital Lease Payments	995,914	43,697	325,395	3,610
Bonds:				
Principal Paid	195,000			
Interest Paid	281,971			
Pike County Interlocal 911 Board Expenditures	156			
Total Cash Disbursements	<u>\$ 37,236,662</u>	<u>\$ 9,930,720</u>	<u>\$ 5,806,811</u>	<u>\$ 1,870,423</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (701,264)	\$ (1,100,159)	\$ (92,386)	\$ (18,992)
Cash Balance - July 1, 2001 *	<u>7,620,462</u>	<u>3,131,074</u>	<u>358,812</u>	<u>76,168</u>
Cash Balance - June 30, 2002 *	<u>\$ 6,919,198</u>	<u>\$ 2,030,915</u>	<u>\$ 266,426</u>	<u>\$ 57,176</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Type			Special Revenue Fund Type		
Local Government Economic Assistance Fund	Forestry Fund	Maintenance Garage Fund	Federal Grants Fund	Solid Waste Fund	Ford's Branch Landfill Closing Fund
\$ 6,766,563	\$ 6,337	\$ 30,435	\$ 522,525	\$ 4,486,884	\$ 25,469
		1,153,543		1,035,192	130,000
				3,784,850	
				719,845	
<u>\$ 6,766,563</u>	<u>\$ 6,337</u>	<u>\$ 1,183,978</u>	<u>\$ 522,525</u>	<u>\$ 10,026,771</u>	<u>\$ 155,469</u>
 \$ 2,157,772	 \$ 8,208	 \$ 1,203,775	 \$ 367,092	 \$ 5,079,669	 \$
4,846,209				714,364	
				3,014,956	
208,828				414,384	
 <u>\$ 7,212,809</u>	 <u>\$ 8,208</u>	 <u>\$ 1,203,775</u>	 <u>\$ 367,092</u>	 <u>\$ 9,223,373</u>	 <u>\$ 0</u>
 \$ (446,246)	 \$ (1,871)	 \$ (19,797)	 \$ 155,433	 \$ 803,398	 \$ 155,469
1,213,419	3,618	20,000		390,873	1,180,986
<u>\$ 767,173</u>	<u>\$ 1,747</u>	<u>\$ 203</u>	<u>\$ 155,433</u>	<u>\$ 1,194,271</u>	<u>\$ 1,336,455</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

	<u>Special Revenue Fund Type</u>		<u>Debt Service Fund Type</u>
	Local Government Economic Development Fund	Capital Lease Acquisition Fund	Public Properties Corporation Fund
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 132,813	\$ 2,435	\$ 266,011
Other Financing Sources:			
Transfers In			210,562
Receipts - Jail Canteen			
Capital Lease Proceeds			
Lease-Purchase Proceeds			
Total Cash Receipts	<u>\$ 132,813</u>	<u>\$ 2,435</u>	<u>\$ 476,573</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 50,000	\$	\$
Other Financing Uses:			
Transfers Out			
Expenditures - Jail Canteen			
Capital Lease Expenditures:			
Equipment		187,807	
Landfill Construction			
Capital Lease Payments			
Bonds:			
Principal Paid			195,000
Interest Paid			281,971
Pike County Interlocal 911 Board Expenditures			
Total Cash Disbursements	<u>\$ 50,000</u>	<u>\$ 187,807</u>	<u>\$ 476,971</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 82,813	\$ (185,372)	\$ (398)
Cash Balance - July 1, 2001 *	<u>71,300</u>	<u>186,846</u>	<u>478,734</u>
Cash Balance - June 30, 2002 *	<u><u>\$ 154,113</u></u>	<u><u>\$ 1,474</u></u>	<u><u>\$ 478,336</u></u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Enterprise Fund Type	Component Unit
Jail Canteen Fund	Pike County Interlocal 911 Board Fund
\$	\$ 592,731
272,786	
<u>\$ 272,786</u>	<u>\$ 592,731</u>
\$	\$
266,289	632,228
	156
<u>\$ 266,289</u>	<u>\$ 632,384</u>
\$ 6,497	\$ (39,653)
<u>101,658</u>	<u>406,974</u>
<u>\$ 108,155</u>	<u>\$ 367,321</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

PIKE COUNTY
STATEMENT OF CASH FLOWS –
PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund</u> <u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 272,786
Payments to Suppliers	(207,671)
Special Purchases	<u>(58,618)</u>
Net Cash Provided By Operating Activities	<u>\$ 6,497</u>
Net Increase in Cash	\$ 6,497
Cash and Cash Equivalents - Beginning	<u>101,658</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 108,155</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	<u><u>\$ 6,497</u></u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Pike County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Pike County Public Properties Corporation and the Pike County Interlocal 911 Board as part of the reporting entity.

Pike County Public Properties Corporation

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Pike County Interlocal 911 Board

The Pike County Interlocal 911 Board (the Board) is a legally separate entity established to provide emergency response services to Pike County. The Board's members are appointed independently of the Pike County Fiscal Court, and the Board's governing body is substantially different from that of the Fiscal Court. However, the Fiscal Court is financially accountable for the Board because the Fiscal Court must approve rate changes established by the Board. This financial accountability requires management to include the Board as a component unit. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

Additional - Pike County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Pike County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Pike County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Pike County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Forestry Fund, and the Maintenance Garage Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Pike County Special Revenue Fund Type includes the following county funds: Federal Grants Fund, Solid Waste Fund, Ford's Branch Landfill Closing Fund, Local Government Economic Development Fund, and the Capital Lease Acquisition Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is a proprietary fund used to report an activity for which a fee is charged to external users for goods or services. The Pike County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Pike County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Debt Service Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit. For the purpose of the statement of cash flows, management considers all highly liquid investments with a maturity date of three (3) months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pike County Fiscal Court: Mountain Water District, Pike County Golf Management Corporation, Pike County Housing Authority, and the Pike County Extension Board.

G. Jointly Governed Organization

Pike County Fiscal Court, in conjunction with the City of Pikeville, has created the Pikeville-Pike County Airport Board (the Board). The Board is composed of six appointed members, three appointed from each of the two participating governments. The fiscal court appropriated \$75,041 to the Board for operating expenses. The Board reimburses the fiscal court for a portion of these operating expenses. The fiscal court had not yet received, but expected reimbursement from the Board in the amount of \$148,445 at fiscal year ended June 30, 2002. We have included this expected reimbursement in the receivable on our Statement of Assets, Liabilities, and Equity Arising From Cash Transactions.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met by the county, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bonds which named the county as beneficiary/obligee on the bonds. However, deposits of the Pike County Interlocal 911 Board, a discretely presented component unit of the county, were not adequately secured. The depository institution has pledged or provided sufficient collateral to cover deposits. However, the depository institution did not have a written agreement with the Pike County Interlocal 911 Board securing the Board's interest in the collateral.

The Pike County Interlocal 911 Board's deposits are categorized below to give an indication of the level of risk assumed by the Board as of June 30, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>486,732</u>
Total	<u><u>\$ 586,732</u></u>

Note 4. Receivables

The Pike County Fiscal Court furnishes payroll processing and accounts payable services to the Pike County Golf Management Corporation, the Pike County Interlocal 911 Board and the Pikeville-Pike County Airport Board. The Fiscal Court is reimbursed from these organizations. As of June 30, 2002, the total amount due to the Fiscal Court is as follows:

Pike County Golf Management Corporation	\$ 170,092
Pike County Interlocal 911 Board	155,723
Pikeville-Pike County Airport Board	<u>148,445</u>
Total Reimbursement due to the Pike County Fiscal Court for Payroll and Accounts Payable and Lease Payments	<u><u>\$ 474,260</u></u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Buskirk McCarr Flood Control Project

The county entered into an agreement with the Department of Army for a flood control project within the county. The agreement requires the county to provide five percent of the total project costs. For the non-federal share of the project, the county entered into an agreement with the Commonwealth of Kentucky to provide 95 percent of the contribution. The Buskirk McCarr Flood Control Project balance at July 1, 2001, was \$102,285. The Commonwealth of Kentucky contributed \$50,000. Interest income totaled \$2,237 for fiscal year ending June 30, 2002. Project costs paid to the Army total \$70,000. In accordance with the project agreement, \$3,328 was paid to the Commonwealth of Kentucky and \$175 was paid to the Pike County Fiscal Court for interest income. In addition, bank charges of \$216 were paid from the account. The project account balance at June 30, 2001, totaled \$80,803.

Note 6. Lease Agreements

On December 1, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$315,625. The agreement requires variable monthly payments for 60 months to be paid in full April 20, 2005. The principal balance of the agreement was \$187,327 as of June 30, 2002.

Note 7. Capital Lease Agreements

- A. On June 17, 1991, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for courthouse renovations. The county refinanced the lease agreement for a lower interest rate in the fiscal year 1999-2000. The principal amount of the lease was \$5,000,000. The agreement requires variable monthly payments for 25 years to be paid in full July 1, 2016. The principal balance of the agreement was \$3,751,822 as of June 30, 2002. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 165,844	\$ 177,095
2004	157,623	187,924
2005	148,899	199,416
2006	139,641	211,610
2007	129,818	224,550
2008-2012	479,375	1,346,329
2013-2016	<u>134,565</u>	<u>1,404,898</u>
Totals	<u>\$ 1,355,765</u>	<u>\$ 3,751,822</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Capital Lease Agreements (Continued)

- B. On June 29, 1993, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for additional courthouse renovations and furniture. The county refinanced the lease agreement for a lower interest rate in the fiscal year 1999-2000. The principal amount of the lease was \$600,000. The agreement requires variable monthly payments for 25 years to be paid in full March 1, 2018. The principal balance of the agreement was \$453,385 as of June 30, 2002. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 20,058	\$ 20,448
2004	19,118	21,330
2005	18,135	22,306
2006	17,106	23,326
2007	16,030	24,393
2008-2012	62,216	139,752
2013-2017	26,901	174,886
2018	465	26,944
Totals	<u>\$ 180,029</u>	<u>\$ 453,385</u>

- C. On December 18, 1998, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for solid waste vehicles and equipment. The principal amount of the lease was \$1,000,000. The agreement requires variable monthly payments for 5 years to be paid in full February 1, 2004. The principal balance of the agreement was \$424,000 as of June 30, 2002. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 16,621	\$ 208,000
2004	6,208	216,000
Totals	<u>\$ 22,829</u>	<u>\$ 424,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Capital Lease Agreements (Continued)

- D. On December 1, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road equipment and vehicles. The principal amount of the lease was \$925,000. The agreement requires variable monthly payments for 5 years to be paid in full December 20, 2004. The principal balance of the agreement was \$486,971 as of June 30, 2002. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 21,128	\$ 188,821
2004	10,975	197,495
2005	<u>1,535</u>	<u>100,655</u>
Totals	<u>\$ 33,638</u>	<u>\$ 486,971</u>

- E. On November 20, 2000, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road equipment. The principal amount of the lease was \$1,028,500. The agreement requires variable monthly payments for 5 years to be paid in full March 20, 2006. The principal balance of the agreement was \$838,500 as of June 30, 2002. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 36,059	\$ 197,000
2004	26,509	205,000
2005	16,557	214,000
2006	<u>6,187</u>	<u>222,500</u>
Totals	<u>\$ 85,312</u>	<u>\$ 838,500</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Capital Lease Agreements (Continued)

- F. On October 1, 2001, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of eight 2001 Ford Crown Victoria's. The principal amount of the lease was \$180,000. This agreement requires variable monthly payments for four years to be paid in full January 20, 2006. The principal balance of the agreement was \$180,000 as of June 30, 2002. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 5,807	\$ 45,000
2004	4,187	45,000
2005	2,566	45,000
2006	945	45,000
Totals	<u>\$ 13,505</u>	<u>\$ 180,000</u>

- G. On February 5, 2002, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for acquisition of seven computer systems. The principal amount of the lease was \$8,500. The agreement requires variable monthly payments for 3 years to be paid in full March 20, 2004. The principal balance of the agreement was \$7,462 as of June 30, 2002.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 218	\$ 4,215
2004	31	3,247
Totals	<u>\$ 249</u>	<u>\$ 7,462</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Capital Lease Agreements (Continued)

H. On January 11, 2002, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$3,775,724. The agreement requires variable monthly payments for six years to be paid in full January 20, 2008. The principal balance of the agreement was \$3,775,724 as of June 30, 2002.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 150,852	\$ 565,962
2004	114,911	589,893
2005	93,608	614,846
2006	69,220	640,854
2007	41,239	667,952
2008	19,779	696,217
Totals	<u>\$ 489,609</u>	<u>\$ 3,775,724</u>

Note 8. Long-Term Debt

In February 1997, the Pike County Public Properties Corporation, a component unit of the Pike County Fiscal Court, issued \$5,875,000 in refunding revenue bonds to refinance the Hall of Justice. The bonds require semiannual interest payments due August 20 and February 20 and one principal payment each year due August 20. The bonds will mature February 20, 2019. As of June 30, 2002, the principal amount outstanding was \$4,955,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2003	\$ 272,294	\$ 205,000
2004	261,976	215,000
2005	250,974	225,000
2006	239,241	235,000
2007	226,628	250,000
2008-2012	913,322	1,455,000
2013-2017	438,274	1,730,000
2018-2019	43,200	640,000
	<u>\$ 2,645,909</u>	<u>\$ 4,955,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 9. Landfill Closure and Post-Closure Costs

KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. The Ford's Branch Landfill closure plan currently calls for six phases. As of June 30, 2002, 40 percent of phase four of the landfill capacity had been used.

Pike County must comply with established state and federal landfill closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$2,454,250, and estimated post closure care costs total \$10,120 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Since the financial statements are prepared on a modified cash basis of accounting and in accordance with the laws of Kentucky, no liability has been recognized for closure or post closure costs.

The fiscal court is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. Each year the fiscal court deposits \$130,000 of solid waste receipts into an account reserved for the landfill closing. At June 30, 2002, the Ford's Branch Landfill Closing Fund had a balance of \$1,336,455.

The Ford's Branch Landfill is scheduled to close in the year 2022. It is anticipated that sufficient funds will be available in the Ford's Branch Landfill Closing Fund Account to pay estimated closures and post-closure costs.

Note 10. Insurance

For the fiscal year ended June 30, 2002, Pike County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Reserved Cash Balances

The Statement Of Cash Receipts, Cash Disbursements, And Changes In Cash Balances shows that the cash balance as of June 30, 2002, was \$6,919,198. Of this amount, \$769,894 is reserved for capital lease expenditures, \$1,336,455 is reserved for closing the Fords Branch landfill and \$478,336 is reserved for the payment of long-term bonds.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

PIKE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 32,700,363	\$ 7,548,333	\$(25,152,030)
Road and Bridge Fund	4,775,927	2,639,560	(2,136,367)
Jail Fund	1,038,945	1,311,431	272,486
Local Government Economic Assistance Fund	9,598,005	6,766,563	(2,831,442)
Forestry Fund	10,618	6,337	(4,281)
Maintenance Garage Fund	209,427	30,435	(178,992)
<u>Special Revenue Fund Type</u>			
Federal Grant Fund	1,680,000	522,525	(1,157,475)
Solid Waste Fund	7,694,659	4,486,884	(3,207,775)
Fords Branch Landfill Closing Fund		25,469	25,469
Local Government Economic Development Fund	202,941	132,813	(70,128)
Capital Lease Acquisition Fund		2,435	2,435
Totals	<u>\$ 57,910,885</u>	<u>\$ 23,472,785</u>	<u>\$(34,438,100)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 57,910,885
Add: Budgeted Prior Year Surplus			1,227,191
Less: Other Financing Uses			<u>(1,206,476)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 57,931,600</u>

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SCHEDULE OF OPERATING REVENUE

PIKE COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>GOVERNMENTAL FUND TYPES</u>					
<u>Revenue Categories</u>	<u>Totals (Memorandum Only)</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Debt Service Fund Type</u>	<u>Component Unit</u>
Taxes	\$ 3,490,755	\$ 3,490,755	\$	\$	\$
In Lieu Tax Payments	831,944	36,102	795,842		
Excess Fees	501,542	501,542			
Licenses and Permits	202,197	202,197			
Intergovernmental Revenues	13,573,976	13,573,976			
Charges for Services	4,758,220	128,638	4,184,325		445,257
Miscellaneous Revenues	702,203	167,877	155,040	239,490	139,796
Interest Earned	270,690	201,572	34,919	26,521	7,678
Total Operating Revenue	<u>\$ 24,331,527</u>	<u>\$ 18,302,659</u>	<u>\$ 5,170,126</u>	<u>\$ 266,011</u>	<u>\$ 592,731</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

PIKE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 4,325,638	\$ 3,261,076	\$ 1,064,562
Protection to Persons and Property	2,772,230	2,899,830	(127,600)
General Health and Sanitation	14,926,314	2,603,082	12,323,232
Social Services	852,579	876,207	(23,628)
Recreation and Culture	4,768,007	820,091	3,947,916
Roads	5,449,042	4,220,244	1,228,798
Airports	72,000	72,056	(56)
Other Transportation Facilities and Services	1,031,914	1,025,295	6,619
Debt Service	300,730	133,339	167,391
Capital Projects	11,583,335	901,147	10,682,188
Administration	2,541,644	2,559,051	(17,407)
Total Operating Budget - General Fund Type	\$ 48,623,433	\$ 19,371,418	\$ 29,252,015
Other Financing Uses:			
Transfers to Public Property			
Corporation Bond Fund	210,562	210,562	
Capital Lease Principal-			
Courthouse Renovations	166,890	166,890	
Courthouse Renovations and Furniture	19,482	19,482	
Road Equipment	190,000	190,000	
Vehicles and Equipment	57,115	57,115	
Vehicles and Equipment - KACO	139,005	139,005	
Solid Waste Equipment and Vehicles	8,000	8,000	
Computer Equipment - Social Services	1,038	1,038	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 49,415,525	\$ 20,163,510	\$ 29,252,015

PIKE COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 202,941	\$ 50,000	\$ 152,941
General Health and Sanitation	6,348,903	4,001,359	2,347,544
Capital Projects	1,680,000	367,092	1,312,908
Administration	1,076,323	1,078,310	(1,987)
Total Operating Budget - Special Revenue Fund Type	\$ 9,308,167	\$ 5,496,761	\$ 3,811,406
Other Financing Uses:			
Capital Lease Principal-			
Vehicles and Equipment - KACO	180,863	180,863	
Road Equipment and Vehicles	41,521	41,521	
Equipment	192,000	192,000	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 9,722,551</u>	<u>\$ 5,911,145</u>	<u>\$ 3,811,406</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Members of the Pike County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Pike County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 1, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pike County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- Reference 2002-1: The County Should Have A Written Agreement To Protect Deposits
- Reference 2002-2: The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court
- Reference 2002-3: The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements
- Reference 2002-4: The Fiscal Court Should Require The Industrial Development And Economic Authority Board To Have Annual Audits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pike County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 1, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Members of the Pike County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Pike County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Pike County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pike County's management. Our responsibility is to express an opinion on Pike County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pike County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pike County's compliance with those requirements.

In our opinion, Pike County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Pike County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pike County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 1, 2003

FINDINGS AND QUESTIONED COSTS

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Pike County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. Four instances of noncompliance material to the financial statements of Pike County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Pike County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pike County reported in Part C of this schedule.
7. The programs tested as major programs were: Abandoned Mine Land Reclamation Program – Feds Creek/Mouthcard Water Supply Project CFDA# 15.252, Community Development Block Grant – Phelps/Buskirk Sewage Project CFDA# 14.219, and Disaster and Emergency Assistance Grant – Public Assistance Grant – August 2001 Flood CFDA # 83.544.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pike County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

Reference Number 2002-1

The County Should Have A Written Agreement To Protect Deposits

The county and its component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of June 30, 2002, the county's deposits were adequately secured in accordance with statutes. However, on June 30, 2002, deposits of the Pike County Interlocal 911 Board, a discretely presented component unit of the county, were not adequately secured. The Pike County Interlocal 911 Board (the Board) had bank deposits of \$586,732; FDIC insurance of \$100,000; and collateral pledged or provided of \$489,250. Even though the Board obtained sufficient collateral of \$489,250, there was no written agreement between the Board and the depository institution, signed by both parties, securing the Board's interest in the collateral. We recommend the county require the Pike County Interlocal 911 Board enter into a written agreement with the depository institution to secure the Board's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

Reference Number 2002-1 (Continued)

Former County Judge/Executive Karen Gibson's Response:

This is the County Treasurer's responsibility, however, we have had problems with this bank in the past. I recommend the county meet with the bank again and determine if the bank can provide adequate securities and pledges, or if the problem continues, I recommend the county change banks.

Reference Number 2002-2

The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court

The County Treasurer did not submit a monthly statement to the County Judge/Executive or the Fiscal Court. KRS 68.360 states, "...The county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation." We recommend the County Treasurer comply with KRS 68.360 by submitting monthly reports to the County Judge/Executive and the Fiscal Court detailing cash balances at the beginning of the month, receipts collected, all claims paid and ending cash balances.

County Treasurer Johnnda B. Billiter's Response:

Since the 2001 exit conference, I have been doing this on a monthly basis. During this audit period, the monthly financial statements were not prepared by the treasurer. Quarterly statements were never timely.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

Reference Number 2002-3

The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements

The Pike County Fiscal Court is in violation of KRS 183.132 by failing to examine the financial reports of the Pikeville/Pike County Airport Board. The Fiscal Court currently provides payroll-processing services to the Pikeville/Pike County Airport Board (the Board). KRS 183.132 allows the fiscal court access to the accounting records and financial reports of the Board at all times. In addition, KRS 183.132 requires the Board to submit a detailed financial report to the Fiscal Court annually. The Airport Board does not submit an annual financial statement to the Fiscal Court, and the Fiscal Court does not request a detailed financial report from the Airport Board. Therefore, we recommend the Fiscal Court comply with KRS 183.132 and request quarterly financial statements from the Airport Board and examine the financial statements to determine the Pikeville/Pike County Airport Board's ability to reimburse the Fiscal Court for payroll-processing.

Former County Judge/Executive Karen Gibson's Response:

We requested by letter on various occasions for financial statements and audit, we also contacted their attorney, Michael Debourbon, who is also a board member concerning the audit. We also contacted Steve Friend numerous times, however, we never received any financial statements or an audit.

Reference Number 2002-4

The Fiscal Court Should Require The Industrial Development And Economic Authority Board To Have Annual Audits

The Pike County Fiscal Court did not require the Industrial Development and Economic Authority Board (the Board) to have an audit. The Fiscal Court and the City of Pikeville created the Board in order to research and develop economic opportunities in the Pikeville/Pike County area. The Board has not had an audit performed since fiscal year ended June 30, 1999, therefore, we recommend the fiscal court require the Board to have annual audits prepared that are in accordance with state laws and OMB Circular A-133, if applicable.

Former County Judge/Executive Karen Gibson's Response:

Leon Huffman, the board chairman, passed away, and an audit was never conducted. However, Leon Huffman was in the process of getting an audit completed when he passed away.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

Reference: 2001-1. “The County Should Have A Written Agreement To Protect Deposits,” was not corrected and is discussed above.

Reference: 2001-2. “The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court,” was not corrected and is discussed above.

Reference: 2001-3. “The County Should Include All Funds In The County’s Financial Statements And County’s Budget,” was corrected in the current year.

Reference: 2001-4. “Official Bonds Should Be Recorded In The County Clerk’s Office,” was corrected in the current year.

Reference: 2001-5. “The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements,” was not corrected and is discussed above.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants-		
Phelps/Buskirk Sewage (CFDA #14.219)	96-046	\$ 511,025
Mossy Bottom Project (CFDA #14.219)	98-046	11,500
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources:		
Abandoned Mine Land Reclamation Programs-		
Feds Creek/Mouthcard Water Supply (CFDA #15.252)	12-34-600-FMAO- E415-04	2,372,700
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Juvenile Accountability Incentive Block Grant (CFDA #16.523)	2001-JB-BX-0021	38,130
Local Law Enforcement Block Grant (CFDA #16.592)	Not Available	40,541

PIKE COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Commerce</u>		
Passed-Through National Oceanic and Atmospheric Administration:		
Pride Community Grants (CFDA #11.469)	Not Available	\$ 201,248
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Public Assistance Grant-August 2001 Flood (CFDA #83.544)	FEMA-1388-DR-KY	520,253
Public Assistance Grant-May 2002 Flood (CFDA #83.544)	FEMA-1414-DR-KY	<u>61,294</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 3,756,691</u></u>

PIKE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - The federal expenditures for Abandoned Mine Land Reclamation Program and Community Development Block Grant – Phelps/Buskirk Sewage Project include grants to the subrecipient as follows:

<u>Subrecipient</u>	<u>CFDA Number</u>	<u>Pass-through Grant Amount</u>
Mountain Water District	15.252	\$2,372,700
Mountain Water District	14.219	\$ 511,025

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

PIKE COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

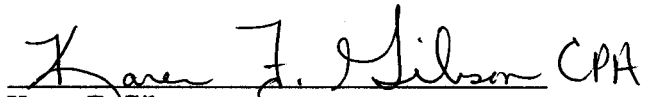
CERTIFICATION OF COMPLIANCE


LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

PIKE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Pike County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Karen F. Gibson
County Judge/Executive


Jonnda B. Billiter
County Treasurer